



**Farm Credit Services
of America**

LAND VALUES

PREPARING FOR WHAT'S NEXT

Doug Stark
President and CEO
Farm Credit Services of America
Omaha, Nebraska



**Farm Credit Services
of America**

Opening Comments

2012 in Review . . .

- \$20,000+ per acre land
- Prime time TV coverage
- Strong farm income
- Widespread drought
- Intense investor interest



Farm Credit Services
of America

Opening Comments

Advice for 2012 . . .

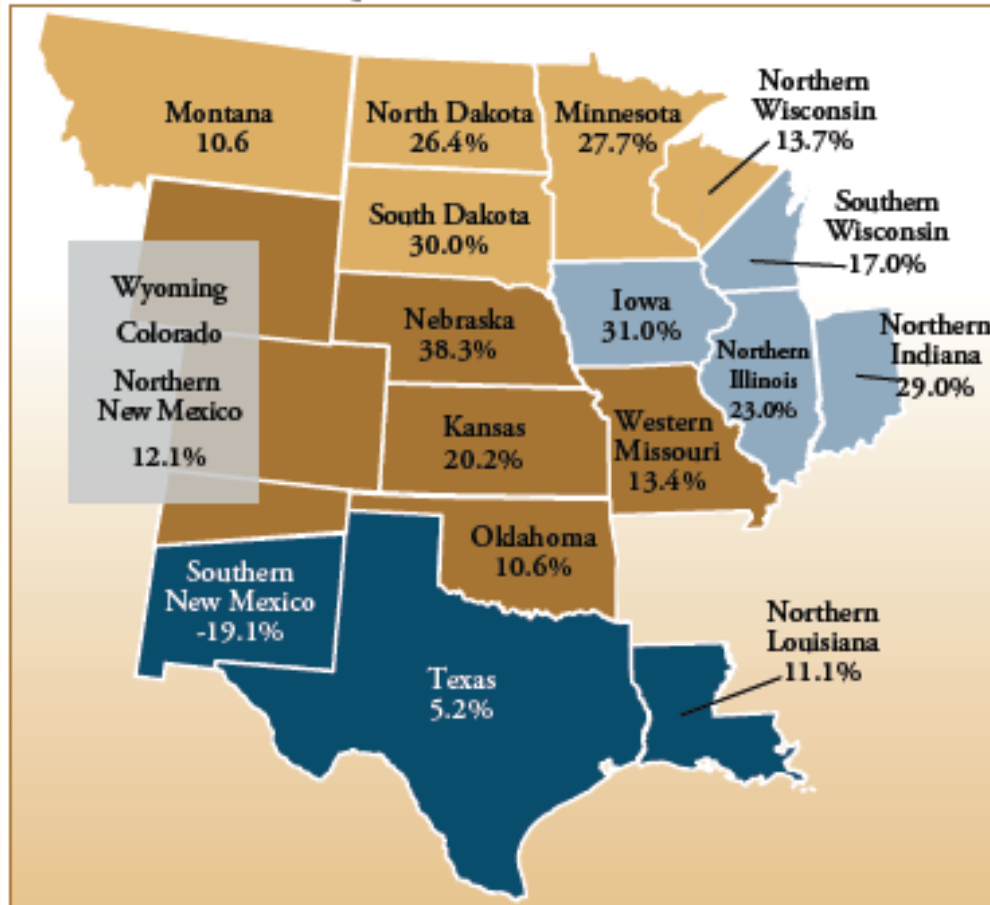
- Turn off the noise
- Separate: emotion/assumption/speculation
- From: facts/data/information
- Remember the old axiom – “what goes up must come down”!
 - Will that apply here?

Midwest RE Values



Farm Credit Services
of America

Source: Federal Reserve Bank of Kansas City





Farm Credit Services
of America

Benchmark Farms

- 66 benchmark farms
 - Iowa, South Dakota, Nebraska, and Wyoming
- Values updated semi-annually (January and July 1st)
- 33,700 sales analyzed over the past 5 years (14,451 in Iowa)
- The real estate market has been very active throughout 2012. There is a strong demand for cropland resulting in strengthening values.

Benchmark Trends

(Based on 7/1/2012 Values)



Farm Credit Services
of America

State	6 Month	1 Year	5 Year	10 Year
Iowa (21)	6.2%	21.7%	104.0%	271.0%
Nebraska (20)	16.3%	47.3%	147.6%	276.1%
South Dakota (23)	12.9%	24.1%	88.2%	293.4%
Wyoming (2)	1.1%	1.1%	7.2%	95.7%



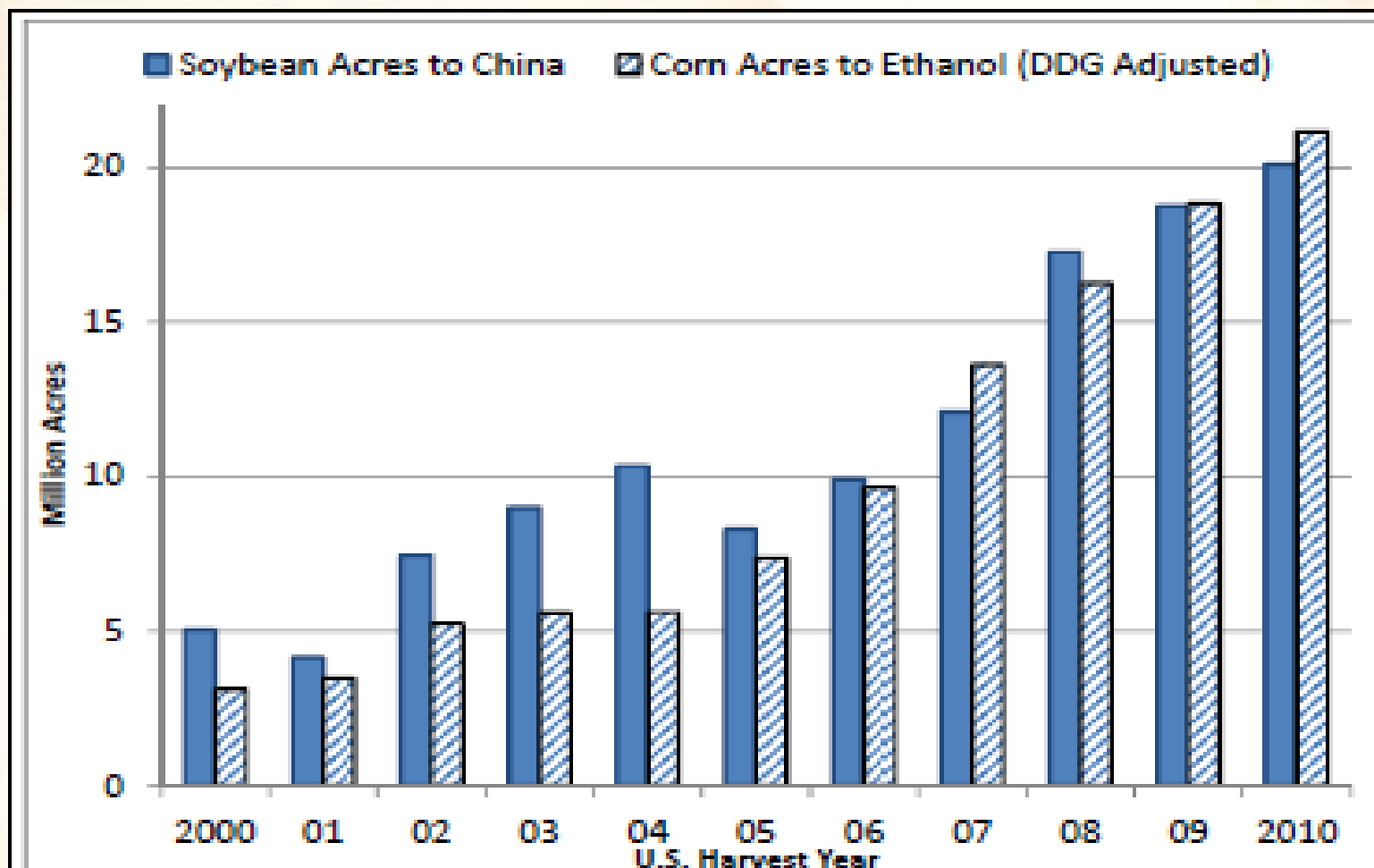
**Farm Credit Services
of America**

Land Value Drivers

- Profitable cash grain production
 - strong demand for cropland tracts
- Demand for farm commodities
 - exports
 - ethanol production
- Grain ending stocks
 - global production
- Low interest rates
- Lack of alternative investments from both the buyer's and seller's perspectives
- Equipment investment and operating capacity



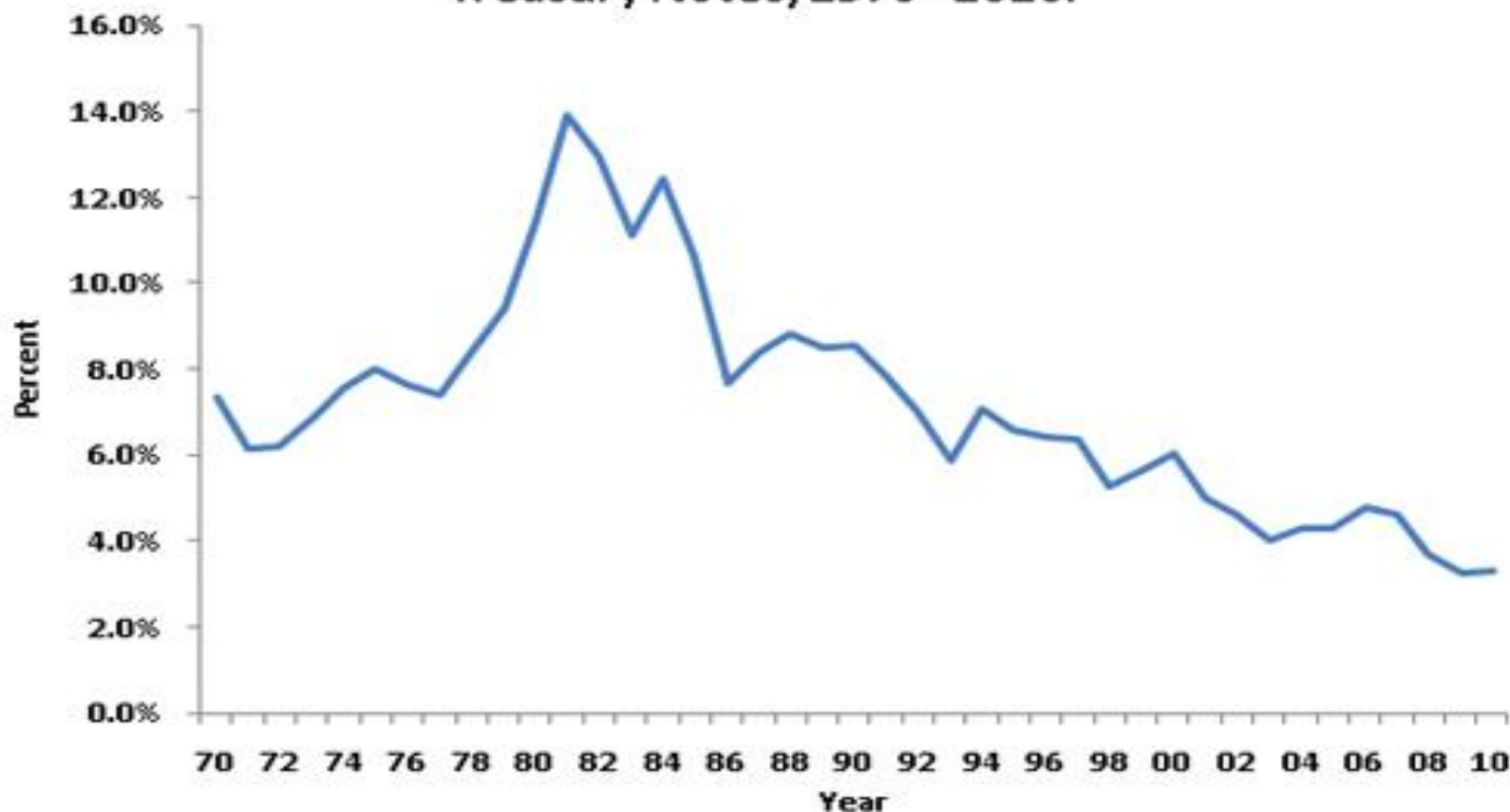
Factors Impacting Crop Returns



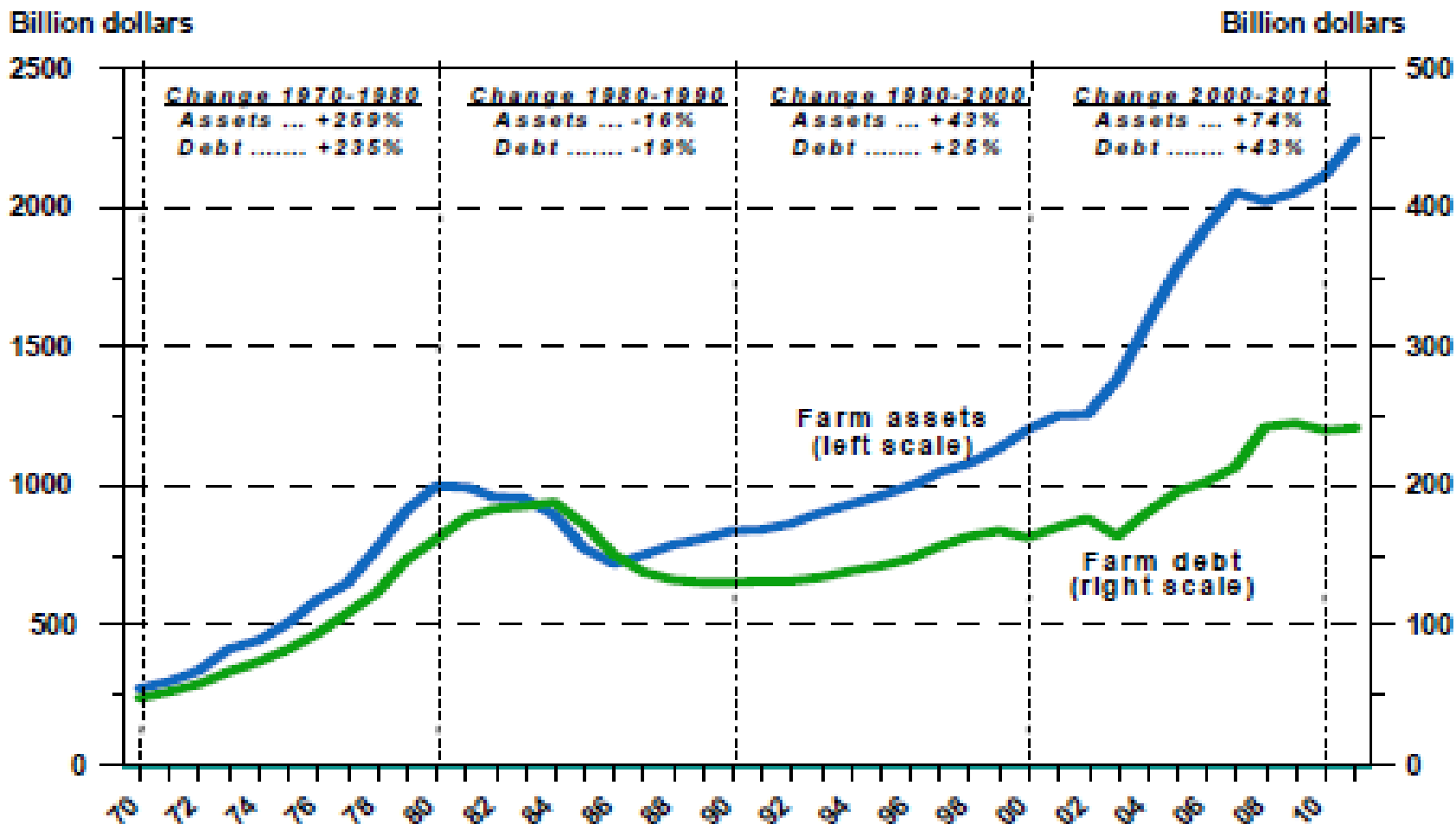


Interest Rate Trends

Figure 3. Interest Rate on 10-Year Maturity U.S. Treasury Notes, 1970 - 2010.



Farm Debt Leveraging Has Not Followed Land Prices Higher



Sustainable Value Lending Philosophy



FCSAmerica Began Using in 2008

- Purpose – Manage risk for borrower and bank
- Premise – Recognize higher commodity production margins – but limit over-reaction
- Outcome – Help prevent over-extending credit in a rapidly increasing market



Farm Credit Services
of America

Information Sources



FAPRI

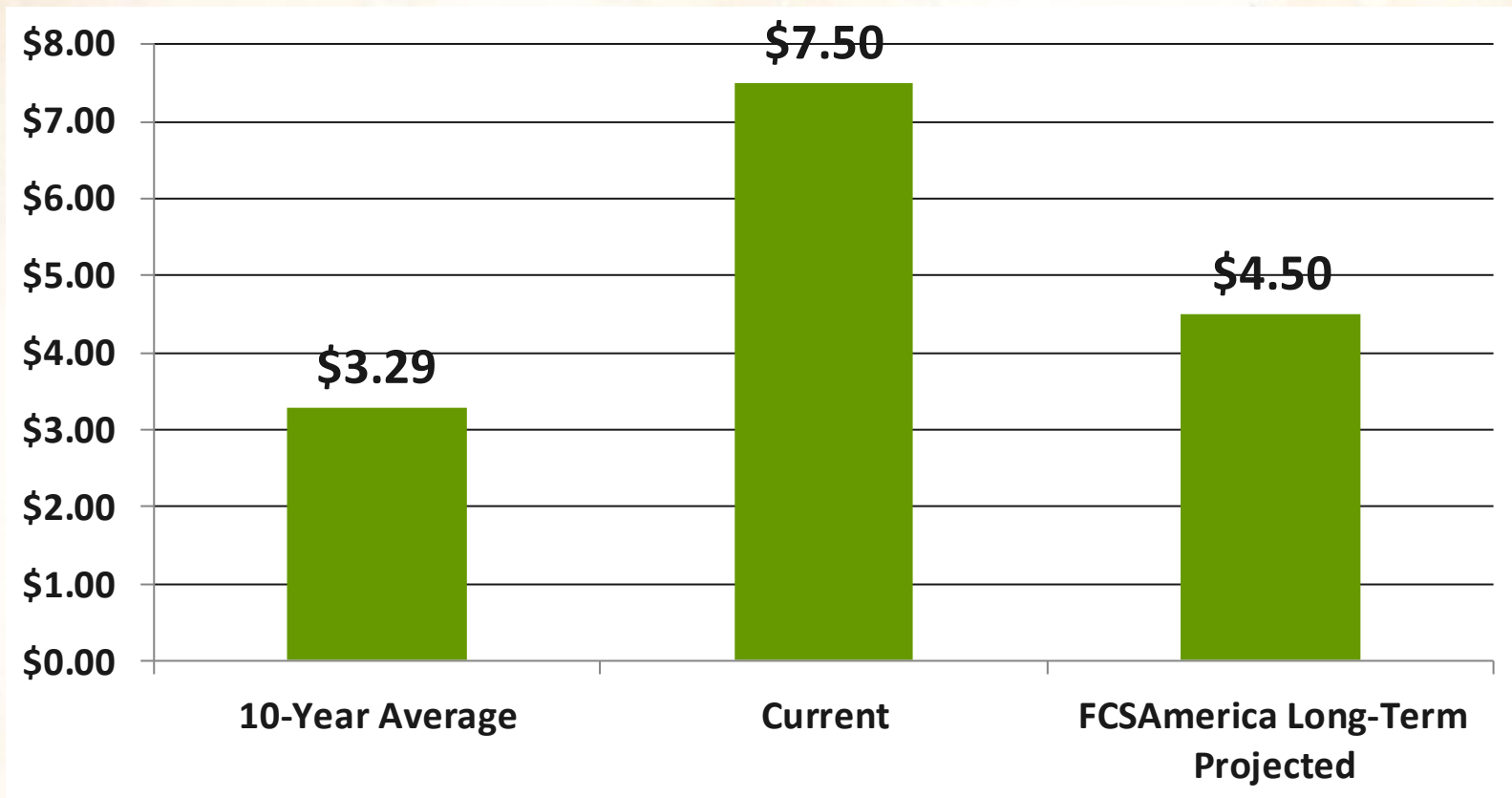
Food and Agricultural
Policy Research Institute



Historical, Current, Projected - Corn Price



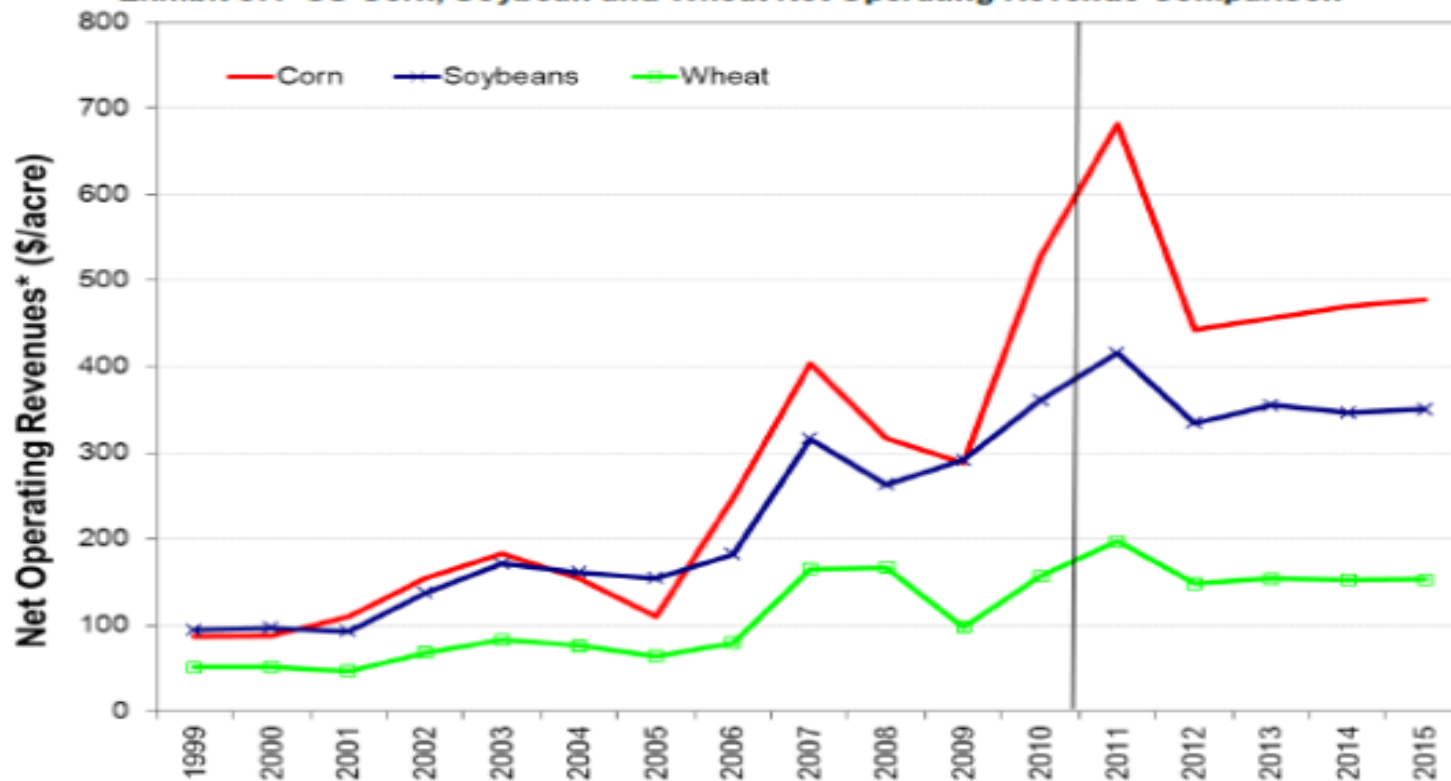
Farm Credit Services
of America





Net Return Summary

Exhibit 57: US Corn, Soybean and Wheat Net Operating Revenue Comparison



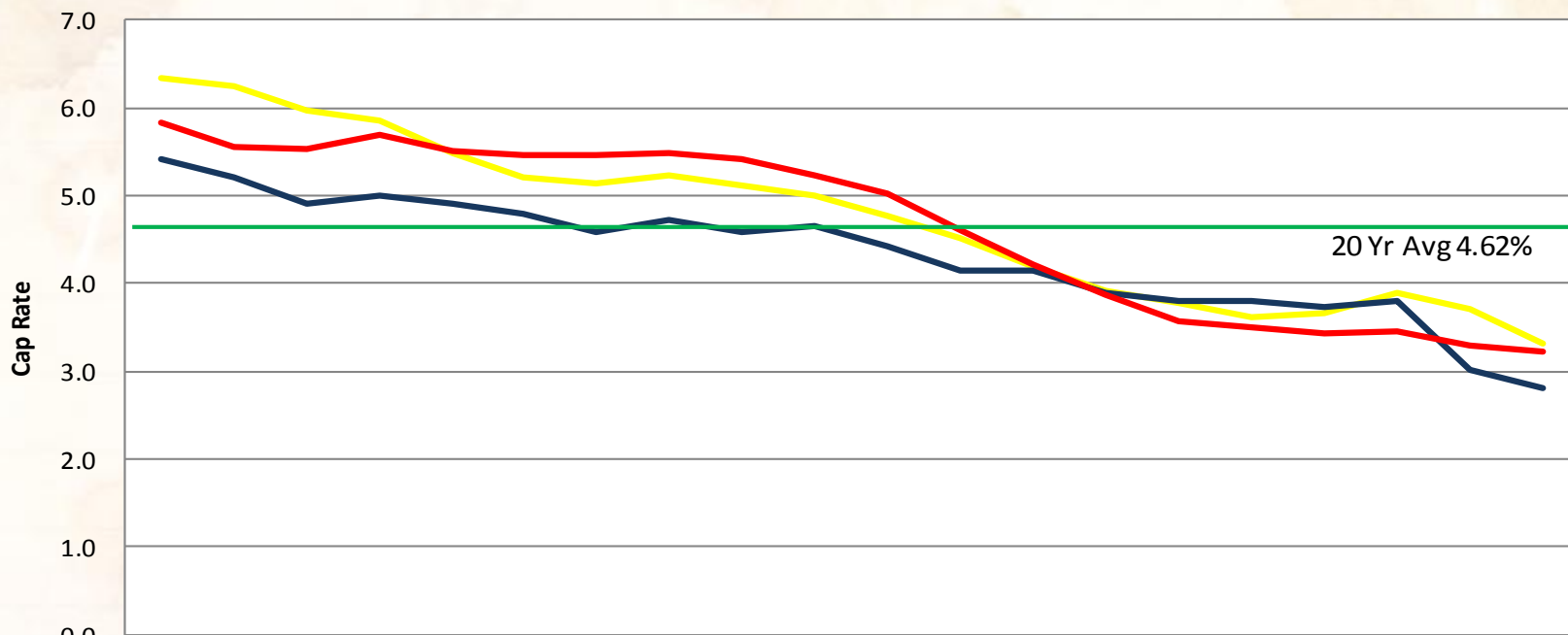
* Net operating revenues = returns over variable costs. Revenue excludes government payments;

Sources: USDA, ERS (historical); Informa Economics (forecast, 2011-2015)



FCSAmerica's Cap Rate Trend

FCSA Experience Cap Rate of Land Sales that are at least 85% tillable



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
IA	6.35	6.24	5.97	5.85	5.48	5.21	5.13	5.24	5.11	5.01	4.76	4.52	4.18	3.91	3.77	3.61	3.66	3.89	3.70	3.33
NE	5.41	5.22	4.90	4.99	4.91	4.80	4.58	4.72	4.58	4.66	4.43	4.15	4.14	3.89	3.80	3.80	3.72	3.79	3.02	2.80
SD	5.82	5.56	5.53	5.69	5.52	5.47	5.46	5.48	5.42	5.22	5.03	4.61	4.21	3.87	3.57	3.49	3.43	3.46	3.29	3.22

FCSAmerica's Lending Model Assumptions



Forward Looking Assumptions for the Northern Iowa Model:

1. 200 bushel yield
2. \$4.50 corn price
3. IA State variable & fixed cost budget estimates
4. A 3.5% capitalization rate (return on investment)

Forward looking assumptions yield:

- Return to real estate of \$320-\$350/A
- Sustainable market value averaging \$9,000/A
- Sustainable lending level of \$5,900/A



Sustainable Value Philosophy

Capitalization Rate	2.0%	2.5%	3.0%	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
Sustainable Land Value	\$15,931	\$12,745	\$10,621	\$9,103	\$7,965	\$7,080	\$6,372	\$5,793	\$5,310
65% Level	\$10,355	\$8,284	\$6,903	\$5,917	\$5,177	\$4,602	\$4,142	\$3,765	\$3,452



Farm Credit Services
of America

Sustainable Value Philosophy

- A difficult valuation scenario
- Long-term asset (land) being greatly influenced by short-term economic factors

THE GREAT LESSON:

- Rising asset values do not repay loans



**Farm Credit Services
of America**

Land Valuation Wildcards

- Weather volatility
- CRP acres
- Valuation of the dollar
- Seed genetic improvements
- European debt crisis
- Number of real estate sales
- Global responses to production



**Farm Credit Services
of America**

Land Valuation Questions

- What is likely to change in the drivers / wildcards?
- How could that affect land prices?
- What is the most likely scenario?



Could a Downturn Occur?

- Demand destruction
 - Livestock
 - Ethanol
- Drought in 2013?
 - Could we push prices even higher?
 - Is there practical top?
- Large crop in 2013
- Subsequent back-to-back strong (trend-line) yields
- Increase in interest rates
- Other factors
 - Global economies
 - Value of the dollar



What Happens In a Downturn ?

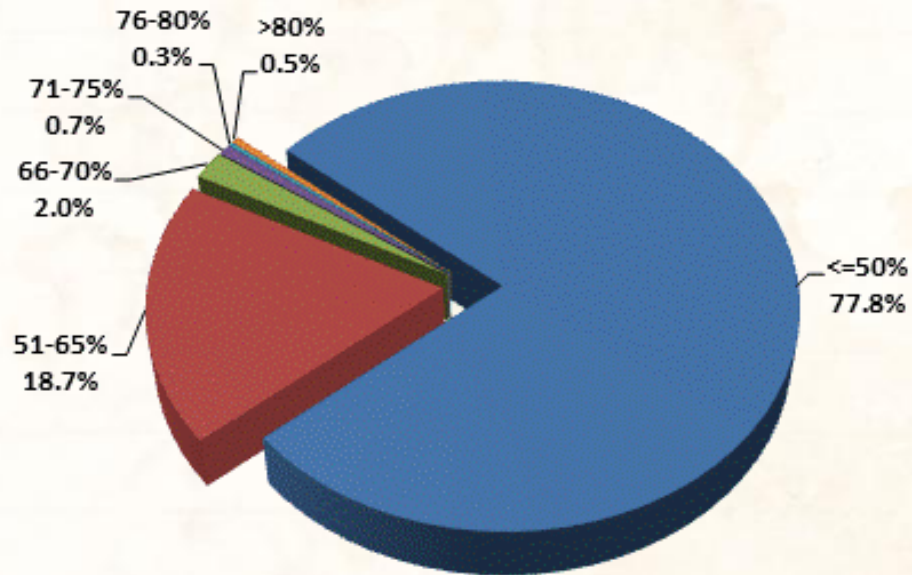
- Emotions kick in
- Buyers get cautious
 - Lower prices and profits
 - Uncertainty
 - Conserving cash/working capital
- Lower bids get rejected
 - Sellers refuse to accept lower prices initially
- Buyers wait on the sidelines thinking prices will go even lower
- Fewer sales to discover true price
 - Auctions accentuate the upside and downside
 - More sales are private treaty (negotiated)

Real Estate



Farm Credit Services
of America

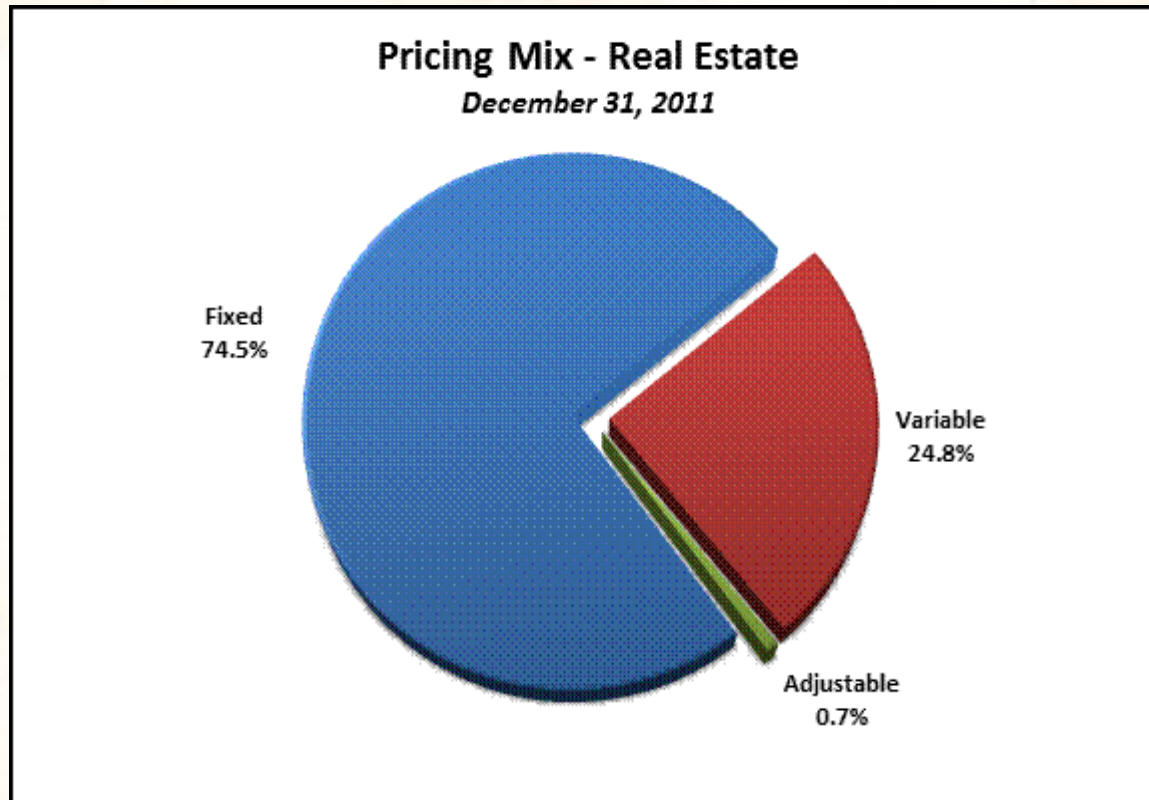
Loan to Market-Adjusted Collateral Value
Excluding ABF and Capital Markets, CHL, and Swine Contract
Finishing Loans
December 31, 2011



% of Fixed Interest Rates - Real Estate Portfolio



Farm Credit Services
of America





**Farm Credit Services
of America**

Food for Thought



Farm Credit Services
of America

Food for Thought

The increase in farm real estate values is different than the housing bubble and the '80s

- Is being purchased from a position of financial strength
- Significant equity (both cash and collateral) going into the purchases
- Is an income-producing asset
- Does not materially deteriorate/depreciate from abuse and neglect
- Supply is constant (relatively); there is not a risk of over-building/over-development like housing or commercial real estate



**Farm Credit Services
of America**

Risk Management Tools

- Maintain strong working capital
- Know your land cost / acre
- Fix long-term interest rates
- Resist aggressively prepaying fixed rate loans
- Crop insurance coverage – revenue protection
- Crop insurance – trend adjusted yield
- Flex leases



**Farm Credit Services
of America**

Food for Thought

- Current environment is not a time for higher risk or higher leverage
- Leverage has two equal and real outcomes
 - Maximizes opportunity for profit AND maximizes opportunity for loss
- Historically, it has been better to leverage into business cycle “low points” than to leverage into business cycle “high points”



Farm Credit Services
of America

Food for Thought

Production Agriculture Margins

- Likely scenario:
 - Higher margins are not permanent
 - Higher margins last for short periods of time
 - Margins tend to normalize over time
 - All parties involved in production agriculture will want a piece of the pie
 - **“The function of a competitive market is to drive the economic return to the average producer to breakeven...”** Danny Klinefelter, Texas A&M



In Closing

- “May you live in interesting times” ---Ancient Chinese Proverb
- Are we in a bubble?
- Are we entering a golden age for U.S. agriculture?